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ORIGIN XMB-04

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DRAFTED BY: DAVID O. BEIM

APPROVED BY: EA/PHL:BENJAMIN A. FLECK

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FM SECSTATE WASHDC

TO AMEMBASSY MANILA IMMEDIATE

C O N F I D E N T I A L STATE 302982

E.O. 11652: GDS

TAGS: EFIN

SUBJECT: MARINDUQUE MINING AND INDUSTRIAL CORP.

1. EXIMBANK HAS OUTSTANDING A DOLS 27 MILLION LOAN TO MARINDUQUE AND DOLS 27 MILLION OF GUARANTEES TO COMMERCIAL BANKS LED BY MANUFACTURERS HANOVER. IN JANUARY 1975, THE 1975 INSTALLMENTS OF PRINCIPAL WERE RESCHEDULED. MARINDUQUE HAS REQUESTED SIMILAR RESCHEDULING OF PRINCIPAL INSTALLMENTS DUE 1976 AND, MORE RECENTLY, DEFERRAL OF 1976 INTEREST AS WELL. THEY HAVE ALSO REQUESTED ADVANCE APPROVAL OF A 1977 RESCHEDULING IF CASH FLOW IS INADEQUATE. THE CASH FLOW DEFICIT FOR 1976 WAS ORIGINALLY ESTIMATED AT DOLS 21.3 MILLION BUT NOW MAY GO AS HIGH AS DOLS 47 MILLION. THE LATTER FIGURE WOULD EXCEED THE AMOUNT WHICH COULD BE SAVED BY RESCHEDULING DEBT SERVICE.

2. EXIMBANK BELIEVES THAT THE PROBLEMS ARE LONG-TERM AND NOT A BRIEF LIQUIDITY MATTER. THE PROJECT IS UNDER-CAPITALIZED AND REQUIRES ADDITIONAL EQUITY. EXIMBANK HAS DECLINED
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TO GO ALONG WITH THE RESCHEDULING IN ORDER TO FORCE CONSIDER-

ATION OF THESE LONG-TERM PROBLEMS BY THE PHILIPPINE GOVERNMENT. IN THE MEANTIME, PENDING THIS REVIEW, MANUFACTURERS HANOVER HAS OFFERED TO SYNDICATE A DOLS 15 MILLION 5-MONTH LOAN TO THE CENTRAL BANK FOR THE PURPOSE OF RELENDING TO MARINDUQUE TO KEEP THE PROJECT SOLVENT WHILE THE LONGER-TERM SOLUTION IS WORKED OUT. MANUFACTURERS HANOVER FULLY CONCURS WITH THE EXIMBANK POSITION.

3. THE DEVELOPMENT BANK OF THE PHILIPPINES OWN 15 PERCENT OF THE EQUITY AND HAS GUARANTEED DOLS 96.4 MILLION OF LOANS TO MARINDUQUE (BUT DOES NOT GUARANTEE EXIMBANK OR OPIC). THE STOCK, WHICH IS LISTED ON THE AMERICAN STOCK EXCHANGE, IS SELLING AT SUCH A LOW PRICE THAT INFUSION OF NEW EQUITY CAPITAL AT CURRENT LEVELS BY DBP WOULD RAISE ITS OWNERSHIP PERCENTAGE DRAMATICALLY. THERE IS NO APPARENT SOURCE OF EQUITY OTHER THAN THE PHILIPPINE GOVERNMENT.

4. MANUFACTURERS HANOVER REPRESENTATIVE RICHARD COPELAND HAS RECENTLY SPOKEN WITH FINANCE MINISTER VIRATA ABOUT THE SHORT-TERM LOAN AND HAS RECEIVED A GUARDED AND HEDGED EXPRESSION OF INTEREST. THE MONETARY BOARD OF THE PHILIPPINES IS TO MEET MONDAY TO DISCUSS AND PERHAPS DECIDE ON THIS PROPOSAL.

5. IT IS IMPORTANT THAT THE EXIMBANK POSITION BE COMMUNICATED TO THE GOP AT A HIGH LEVEL AND IN THE PROPER SPIRIT. THE BANK AS YOU KNOW IS QUITE SUPPORTIVE OF THE PHILIPPINES BUT FEELS THE GOP MUST STAND UP AND ASSUME RESPONSIBILITY FOR THIS TROUBLED PROJECT. THE GOP HAS IN THE PAST DECLINED TO FURTHER ASSIST MARINDUQUE ON THE GROUNDS THAT IT IS A PRIVATE SECTOR PROJECT, BUT THE INVOLVEMENT OF THE DBP IS ALREADY SO GREAT THAT THIS VIEW CANNOT BE ACCEPTED. FOR EXAMPLE, IF A MARINDUQUE DEFAULT PRECIPITATED ACCELERATION OF DEBT MATURITIES, DPB WOULD BE REQUIRED TO MAKE GOOD ON ITS GUARANTEES, WHICH WOULD BE MORE EXPENSIVE AND SOCIALLY FAR LESS PRODUCTIVE THAN AN INFUSION OF CAPITAL TO KEEP THE PROJECT GOING.

6. MARINDUQUE HAS TRADE DEBTS DUE BY THE END OF THE YEAR WHICH CANNOT BE MET OUT OF CURRENT CASH RESOURCES, SO THE MATTER HAS SOME URGENCY. EXIMBANK EXECUTIVE VICE PRESIDENT
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DAVID BEIM IS PREPARED TO COME TO MANILA AT ANY TIME TO DISCUSS THE MATTER WITH THE APPROPRIATE OFFICIALS. THIS COULD BE DONE AS EARLY AS NEXT MONDAY IN THE FORUM OF THE MONETARY BOARD OR IN EARLY JANUARY IF A BETTER HEARING WOULD BE POSSIBLE AFTER THE HOLIDAYS. MARINDUQUE COUNSEL IRWIN ROBINSON IS URGING IMMEDIATE TRAVEL IN VIEW OF TRADE DEBTS, BUT EXIMBANK REQUESTS EMBASSY GUIDANCE AS TO APPROPRIATE FORUM AND TIMING. MR. BEIM CAN BE REACHED BY TELEPHONE DURING

THE NEXT FOUR DAYS AT 202-338-3636. KISSINGER

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